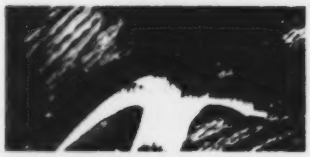
First Quarter
Fiscal Report

Province of Alberta



06 BUDGET

STRENGTHENING TODAY,
Securing Tomorrow

2006 - 2007 Quarterly Budget Report

August 2006

Alberta

UPDATING ALBERTANS

The *First Quarter Fiscal Update* consists of two parts – the updated 2006-07 forecast and the actual results for the first three months of the fiscal year (April 1 to June 30, 2006).

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2006-07 FORECAST

HIGHLIGHTS

- **Revenue** is forecast at $33.9 billion, $1.5 billion higher than budget. The increase is primarily due to higher income tax and energy revenue.
- **Expense** is forecast at $29.7 billion, an increase of $1.3 billion from budget. This includes:
  - $516 million in disaster/emergency assistance for agriculture, wildfires, floods, and mountain pine beetle infestations.
  - $102 million for higher natural gas rebates.
  - $539 million increase in capital grants, funded from the Capital Account, mainly for schools, health equipment and cost escalation of approved projects.
  - $182 million net increase in operating expense, mainly for school and health authority operations.
- **Surplus** (net revenue) is forecast at $4.3 billion, a $193 million increase from budget.
- **Capital Plan.** Strong 2005-06 fourth quarter results and higher 2006-07 revenue have allowed a $1.8 billion increase in capital commitments. The Capital Account has been increased to pay for these projects.
  - In 2006-07, capital spending has been increased by $711 million ($539 million in capital grants and $172 million in capital investment).
  - There has also been a $1.1 billion increase in capital commitments in future years.
- **Sustainability Fund.** In addition to the allocation to the Capital Account, $2.5 billion has been allocated to the Heritage Fund, endowments and funds. This is an increase of $591 million from budget including $200 million for a new Energy Innovation Fund.
- After these allocations, the Sustainability Fund is forecast at $5.1 billion. This is $2.6 billion higher than the minimum target level.

FISCAL SUMMARY[a]

(millions of dollars)

		2006-07 Budget	2006-07 1st Quarter Forecast	Change from Budget
1	**Revenue**	32,408	**33,940**	1,532
2	**Expense**			
3	Program	28,067	**29,406**	1,339
4	Debt servicing costs	245	**245**	-
5	Total Expense	28,312	**29,651**	1,339
6	**Net Revenue (surplus)**	4,096	**4,289**	193
7	Transfer from Capital Account for capital grants	1,896	**2,435**	539
8	Net transfer from (to) Sustainability Fund	(5,692)	**(6,612)**	(920)
9	**Contingency Allowance**	300	**112**	(188)
10	**Net Amount Available for Allocation from the Sustainability Fund**			
11	Net Revenue	4,096	**4,289**	193
12	Cash from 2005-06 fourth quarter results	-	**1,095**	1,095
13	Adjustments [b]	(276)	**797**	1,073
14	**Net Amount Available for Allocation**	3,820	**6,181**	2,361
15	**Allocation**			
16	Capital Account (net increase available for capital support in future years)	-	**1,050**	1,050
17	Heritage Fund - $1 billion deposit and inflation-proofing	1,242	**1,283**	41
18	Advanced education endowment (in the Heritage Fund)	-	**250**	250
19	Medical Research Endowment Fund	150	**150**	-
20	Science and Engineering Research Endowment Fund	-	**100**	100
21	Scholarship Fund	20	**20**	-
22	Alberta Cancer Prevention Legacy Fund	500	**500**	-
23	Energy Innovation Fund	-	**200**	200
24	Amount in Sustainability Fund above $2.5 billion at March 31, 2007	1,908	**2,628**	720
25	**Total Allocation**	3,820	**6,181**	2,361

a Subject to the *Fiscal Responsibility Act*. Does not include changes in equity of Crown-controlled SUCH sector organizations or in pension obligations.

b Adjusts Net Revenue to cash available for allocation from the Sustainability Fund. First quarter forecast includes the $1.6 billion in Sustainability Fund above the $2.5 billion minimum balance at the start of the year, plus $551 million in cash adjustments, less $248 million in retained income of funds and agencies, less $977 million required for 2006-07 capital investment, less $112 million in the Contingency Allowance. Further details are provided on page 6.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is now forecast at $11.9 billion, an increase of $531 million from the budget estimate. Energy prices have been very volatile, with oil prices reaching record highs, while natural gas prices have been weaker than expected.

Total **oil royalties** are forecast at $3.8 billion, $1.1 billion higher than estimated in the budget. Oil prices are now forecast to average US$63.50 per barrel for the fiscal year, US$13.50 higher than the budget estimate.

Oil prices are considerably higher than expected by most energy analysts or estimated in the budget. This reflects continued strong world demand, a significant risk premium for possible supply disruptions and the uncertainty regarding the amount of spare capacity available to offset any disruptions.

Risk concerns have resulted in year-to-date (April to August) oil prices averaging nearly US$72.00 per barrel.

Natural gas royalties are forecast at $6.2 billion, a decrease of $950 million from the budget estimate. Natural gas prices are forecast to average Cdn$6.50 per gigajoule, a decrease of $1.00 from the budget.

The lower price forecast reflects the impact of record levels of natural gas storage inventories in the United States and a higher exchange rate forecast. Year-to-date (April to August), natural gas prices have averaged Cdn$5.72 per gigajoule.

Other non-renewable resource revenue is forecast at $1.9 billion, $339 million higher than the budget estimate. This is almost entirely due to higher revenue from **bonuses and sales of Crown leases**, in particular, from the sales of oilsands leases.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above $5.3 billion be transferred to the Sustainability Fund. This transfer is now forecast at $6.6 billion.

TAX REVENUE

Personal income tax is forecast at $6.7 billion, up $689 million from the budget. Preliminary data from 2005 tax returns indicate assessments are higher than forecast. The outlook for personal and labour income has also strengthened based on 2006 wage trends.

Corporate income tax revenue is forecast at $2.7 billion, up $473 million from the budget. Exceptionally high oil prices and continued strong economic growth have contributed to a much stronger corporate profit outlook than forecast in the budget.

Other tax revenue is forecast at $3.3 billion, a $15 million increase from budget. Increases in revenue from the fuel tax, insurance taxes and the tourism levy are partly offset by a decrease in freehold mineral rights tax revenue, due to the lower natural gas price forecast and adjustments for lower productivity wells.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at $3.1 billion, $266 million lower than budget. Health transfers and the Canada Social Transfer are $310 million lower than budgeted, reflecting the impact of higher provincial income tax revenue on federal transfers.

Other transfers are up $44 million, primarily due to the federal transfer for public transit announced in March 2006.

INVESTMENT INCOME

Investment income is forecast at $1.8 billion, a $4 million increase from budget. Heritage Fund and endowment fund income is down $101 million as a result of the global correction in equity markets, which lowers market values and expected realized capital gains. This decrease is partly offset by a $105 million increase in other investment income, mainly due to higher asset balances and interest rates.

OTHER REVENUE

Other revenue is forecast at $4.4 billion, up $86 million from budget. The net increase comprises:

- $86 million increase in net gaming revenue mainly related to video lottery terminal activity.
- $38 million decrease in timber royalties revenue due to lower prices and a higher exchange rate forecast.
- $38 million net increase in other revenue.

REVENUE

(millions of dollars)

	2006-07 Budget	1st Quarter Forecast	Change from Budget	Main Reasons for Change from Budget
Income Taxes				
Personal income tax	5,999	**6,688**	689	Higher 2005 assessments/income growth
Corporate income tax	2,227	**2,700**	473	Stronger corporate profits
	8,226	**9,388**	1,162	
Other Taxes				
School property tax	1,306	**1,306**	-	
Tobacco tax	740	**740**	-	
Fuel tax	643	**675**	32	Stronger economic and population growth
Freehold mineral rights tax	386	**330**	(56)	Lower natural gas price/productivity well adjustment
Insurance taxes	195	**226**	31	Growth in premiums and the economy
Tourism levy	50	**58**	8	Higher-than-forecast hotel stays
	3,320	**3,335**	15	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	7,146	**6,196**	(950)	Lower natural gas price
Crude oil royalty	954	**1,332**	378	Higher oil price
Synthetic crude oil and bitumen royalty	1,716	**2,480**	764	Higher oil price
Coal royalty	11	**15**	4	Increased production
Bonuses and sales of Crown leases	1,479	**1,810**	331	Higher oilsands lease sales
Rentals and fees	150	**154**	4	Revised forecast
Royalty tax credit	(102)	**(102)**	-	
	11,354	**11,885**	531	
Transfers from Government of Canada				
Health transfers	1,888	**1,697**	(191)	Higher income tax revenue
Canada Social Transfer	678	**559**	(119)	Higher income tax revenue
Agriculture support programs	303	**303**	-	
Other	529	**573**	44	Public transit transfer
	3,398	**3,132**	(266)	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission:				
Gaming and lottery revenue	1,300	**1,386**	86	Higher VLT activity
Liquor revenue	571	**571**	-	
Alberta Treasury Branches	217	**217**	-	
Other	6	**6**	-	
	2,094	**2,180**	86	
Investment Income				
Alberta Heritage Savings Trust Fund	874	**784**	(90)	Lower-than-expected realized capital gains
Alberta Capital Finance Authority	275	**275**	-	
Agriculture Financial Services Corporation	86	**86**	-	
Sustainability Fund	125	**160**	35	Higher asset balance and interest rates
Debt Retirement Account	89	**95**	6	Higher interest rates
Endowment Funds:				
Medical Research	61	**59**	(2)	Lower-than-expected realized capital gains
Science and Engineering Research	31	**25**	(6)	Lower-than-expected realized capital gains
Scholarship	27	**24**	(3)	Lower-than-expected realized capital gains
Capital Account	135	**150**	15	Higher asset balance and interest rates
Other	64	**113**	49	Higher asset balances and interest rates
	1,767	**1,771**	4	
Premiums, Fees and Licences				
Health care insurance premiums	882	**891**	9	Increase in registrants
Motor vehicle licences	305	**307**	2	Higher commercial vehicle registrations
Crop and hail insurance premiums	124	**124**	-	
Timber rentals and fees	81	**43**	(38)	Lower prices/higher exchange rate
Land titles	54	**58**	4	Stronger real estate market
Other	306	**310**	4	Revised forecast
	1,752	**1,733**	(19)	
Other				
Refunds of expense	97	**97**	-	
Fines and penalties	78	**80**	2	Revised forecast
Miscellaneous	322	**339**	17	Glenbow Ranch donation, other net changes
	497	**516**	19	
Total Revenue	32,408	**33,940**	1,532	

EXPENSE

TOTAL EXPENSE

- Total expense is $1.3 billion higher than the budget estimate. Changes include:
  - $539 million for increased capital grants from the Capital Account.
  - $516 million for disaster/emergency assistance from the Sustainability Fund.
  - $102 million for higher natural gas rebates from the Sustainability Fund.
  - $188 million net increase for in-year operating expense initiatives drawn against the Contingency Allowance.
  - $6 million net decrease in dedicated revenue/expense.

SUSTAINABILITY FUND

Natural Gas Rebates – $464 million in rebates are forecast to be paid, a $102 million increase from budget. Rebate levels are now expected to reach $2.50 per gigajoule in all six eligible months (October to March), while the budget assumed rebate levels of $2.50 in two months and $1.50 in four months.

Disaster/Emergency Assistance – Total assistance of $516 million including: $261 million for agriculture assistance, $231 million for higher fire-fighting costs, $20 million for survey and control of mountain pine beetle infestations and $4 million for flood disaster assistance. Funding related to these increases is drawn from the Sustainability Fund.

CAPITAL ACCOUNT

Capital grants funded from the Capital Account have been increased by $539 million from budget. This includes increased grants for school and post-secondary capital projects, health equipment, provincial highway rehabilitation, petroleum storage tank site remediation, and water and waste management infrastructure.

FUNDING FROM THE CONTINGENCY ALLOWANCE

$300 million was set aside in the budget for in-year, non-emergency initiatives. A net $188 million has been allocated primarily for higher health and education operating expense.

MINISTRY EXPENSE CHANGES

Advanced Education – $40 million net increase. This includes $49 million to offset cost escalation of approved capital projects, partially offset by a $9 million decrease related to lower-than-estimated applications for the Alberta Centennial Education Savings Plan.

Agriculture, Food and Rural Development – $271 million increase comprising $261 million in agriculture disaster funding, $5 million for wastewater infrastructure and $5 million for bioenergy initiatives.

Education – $293 million increase. $232 million has been provided for school maintenance and renewal, cost escalation of approved projects, modular classrooms, new schools and preservation projects, and $61 million has been provided in operating support to schools.

Environment – $12 million increase consisting of $7 million for water and waste management and $5 million for ground water mapping and research.

Health and Wellness – $262 million increase. This includes $150 million for medical equipment, $31 million for auxiliary nursing salary adjustments and $81 million for health authority operations.

Infrastructure and Transportation – $175 million net increase. This includes $102 million for natural gas rebates, $36 million for cost escalation of approved capital projects, $40 million for municipal public transit (fully offset by a federal transfer), and $14 million in other increases. These increases are partially offset by a $17 million decrease in amortization.

Innovation and Science – $20 million increase. $15 million is for energy related research and $5 million for *Water for Life* research. An additional $25 million has been committed for *Water for Life* research in 2007-08.

Municipal Affairs – $21 million increase. $13 million to assist in the remediation of petroleum storage tank sites, $4 million for 2006 flood disaster assistance, and $4 million for administration costs related to 2005 flood disasters.

Sustainable Resource Development – $249 million net increase. $231 million is for higher fire-fighting costs and $20 million for survey and control of mountain pine beetle infestations. These increases are partly offset by a $2 million transfer to capital investment.

NOTE ON ENERGY INNOVATION FUND

$200 million has been allocated from the Sustainability Fund to the new Energy Innovation Fund. This Fund will support energy development and efficiency, as well as environmental protection and sustainability.

$25 million has been allocated from the Fund in 2006-07 for initiatives in the ministries of Agriculture, Food and Rural Development, Environment, and Innovation and Science. Funded initiatives include bioenergy research, ground water mapping and research, and research on clean coal development and municipal waste management.

EXPENSE SUMMARY

(millions of dollars)

	2006-07 Budget	2006-07 1st Quarter Forecast	Change from Budget
Program Expense			
Budget base operating expense	27,705	**27,705**	-
Disaster/emergency assistance (from Sustainability Fund)	-	**516**	516
Natural gas rebates (from Sustainability Fund)	362	**464**	102
Increase in capital grants (from Capital Account)	-	**539**	539
In-year Contingency Allowance net expense	-	**188**	188
Dedicated expense changes (net) [a]	-	**(6)**	(6)
Total Program Expense	28,067	**29,406**	1,339
Debt Servicing Costs	245	**245**	-
Total Expense	28,312	**29,651**	1,339

a Dedicated revenue/expense changes – Agriculture, Food and Rural Development: $0.3 million increase for weather station maintenance and demonstration farm operations; Community Development: $0.6 million increase reflecting the federal government contribution to acquire western Canadian aboriginal artifacts; Environment: $0.5 million increase for water operations; Municipal Affairs: $3.4 million increase in federal transfers for 2005 disaster administration costs; Finance: $0.8 million decrease in Alberta Pensions Administration operations; Gaming: $10 million decrease for delays in expansion of racing entertainment centres and flow-through to Horse Racing and Breeding Renewal Program.

EXPENSE BY MINISTRY

(millions of dollars)

	2006-07 Budget	2006-07 1st Quarter Forecast	Change from Budget	Main Reasons for Change from Budget
Program				
Legislative Assembly	75	**75**	-	
Aboriginal Affairs and Northern Development	44	**45**	1	Legal costs
Advanced Education	2,198	**2,238**	40	Capital grants for cost escalation, lapses
Agriculture, Food and Rural Development	1,093	**1,364**	271	Disaster/wastewater grants/bioenergy
Children's Services [a]	918	**912**	(6)	Child care initiatives
Community Development	242	**243**	1	Acquisition of aboriginal artifacts
Economic Development	103	**105**	2	Labour force/immigration initiatives
Education	5,127	**5,420**	293	School capital and operating support
Energy	219	**219**	-	
Environment	143	**155**	12	Water and waste management grants
Executive Council	25	**25**	-	
Finance	596	**594**	(2)	Various miscellaneous changes
Gaming	202	**192**	(10)	Delays in racing entertainment expansion
Government Services	99	**100**	1	Transfer from capital investment
Health and Wellness	10,315	**10,577**	262	RHA operations/equipment/auxiliary nursing
Human Resources and Employment	789	**794**	5	LTD recipients benefit adjustment
Infrastructure and Transportation [a]	2,546	**2,721**	175	Natural gas rebates/capital grants
Innovation and Science	181	**201**	20	Energy and water research initiatives
International and Intergovernmental Relations	11	**11**	-	
Justice	348	**352**	4	Justices of the Peace compensation
Municipal Affairs [a]	141	**162**	21	Tank site remediation/flood disasters
Restructuring and Government Efficiency	147	**147**	-	
Seniors and Community Supports	1,817	**1,813**	(4)	Lower AISH costs
Solicitor General and Public Security	450	**454**	4	Edmonton Remand Centre overcrowding
Sustainable Resource Development	238	**487**	249	Wildfires/mountain pine beetles
Total Program Expense	28,067	**29,406**	1,339	
Debt Servicing Costs	245	**245**	-	
Total Expense	28,312	**29,651**	1,339	

a Budget numbers have been restated to reflect a $2.1 million transfer for 'capital for emergent projects' from Infrastructure and Transportation to Municipal Affairs ($2 million) and Children's Services ($125,000).

ALBERTA SUSTAINABILITY FUND

TRANSFERS

The *Fiscal Responsibility Act* requires non-renewable resource revenue above $5.3 billion to be transferred to the Sustainability Fund. Increases in other revenue, less certain adjustments, are also transferred to the Fund.

A net transfer of $6.6 billion to the Fund is being made. This includes $6.6 billion in non-renewable resource revenue, a $1 billion increase in other revenue, less $980 million in withdrawals for natural gas rebates and disasters/emergencies.

In addition, $1.1 billion has been transferred from the better-than-forecast 2005-06 fourth quarter results.

This amount is adjusted for:

- $551 million in positive cash adjustments primarily related to natural gas royalties.
- $248 million negative adjustment related to retained income of funds and agencies.

ALLOCATION OF AVAILABLE ASSETS

Assets in the Fund above $2.5 billion can be allocated to other balance sheet improvements, including the Capital Account and savings.

$3.4 billion has been transferred to the Capital Account to support capital spending in 2006-07. The remaining $6.2 billion has been allocated to:

- Capital Account – $1.1 billion to meet future-year commitments.
- Heritage Fund and other endowments – $1.8 billion.
- Funds – Two new funds have been established in 2006-07: the Cancer Fund received $500 million and the Energy Innovation Fund received $200 million.
- Sustainability Fund – $2.6 billion has been left in the Sustainability Fund, leaving total assets forecast at $5.1 billion at March 31, 2007.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2006-07		
	Budget	1st Quarter Forecast	Change from Budget
Assets at Start of Year	4,083	**4,083**	-
Cash transferred from 2005-06 fourth quarter results [a]	-	**1,095**	1,095
Transfers to (withdrawals from) Sustainability Fund			
Non-renewable resource revenue transfer from general revenue	6,054	**6,585**	531
Other net transfers	-	**1,007**	1,007
Withdrawals for disaster/emergency/natural gas rebates	(362)	**(980)**	(618)
Adjustments			
Energy and other cash adjustments [b]	(464)	**551**	1,015
Retained income of funds and agencies [c]	(282)	**(248)**	34
Minimum assets required in Sustainability Fund	(2,500)	**(2,500)**	-
Transfer of Assets to Capital Account for current-year use			
Capital Grants	(1,896)	**(2,435)**	(539)
Capital Investment	(813)	**(977)**	(164)
Assets Available for Allocation	3,820	**6,181**	2,361
Allocations			
Capital Account - future-year commitments	-	**1,050**	1,050
Heritage Fund - deposit	1,000	**1,000**	-
Heritage Fund - inflation-proofing	242	**283**	41
Advanced education endowment (in the Heritage Fund)	-	**250**	250
Medical Research Endowment Fund	150	**150**	-
Science and Engineering Research Endowment Fund	-	**100**	100
Scholarship Fund	20	**20**	-
Alberta Cancer Prevention Legacy Fund	500	**500**	-
Energy Innovation Fund	-	**200**	200
Remaining Sustainability Fund assets above $2.5 billion at end of year	1,908	**2,628**	720
Total Allocations	3,820	**6,181**	2,361
Total Sustainability Fund assets at March 31, 2007	4,408	**5,128**	720

a The cash from the higher-than-forecast 2005-06 fourth quarter results was transferred into the Sustainability Fund in 2006-07.

b Due primarily to cash adjustments for natural gas royalties.

c Due primarily to retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds. This is partly offset by withdrawals from the Cancer Fund and the Energy Innovation Fund.

CAPITAL PLAN

Capital Plan commitments have been increased by $1.8 billion: $711 million in 2006-07 and $1.1 billion in future years.

This increase will provide funding for: cost escalation of approved projects, additional school projects, health equipment, a new Edmonton Remand Centre, a province-wide policing information technology system, petroleum tank site remediation, regional water systems and other infrastructure support.

2006-07 CAPITAL PLAN

In 2006-07 capital spending (capital grants to local authorities and capital investment in provincial government-owned projects) is now forecast at $4.9 billion, $711 million higher than budgeted. Changes include:

- **Municipal Infrastructure Support** – Total allocation of almost $1.1 billion, $64 million higher than budget. Increases include $40 million related to the federal transfer for public transit, $13 million for storage tank site remediation, $5 million for highway improvements and $4 million for waste management.
- **Provincial Highway Network** – Total allocation of $1.1 billion, a $25 million increase from budget, primarily for cost escalation of approved projects.
- **Health Facilities and Equipment** – Total allocation of $898 million, up $150 million from budget, for health equipment.
- **Post-secondary Facilities** – Total allocation of $327 million, a $49 million increase from budget, for cost escalation of approved projects.
- **Schools** – Total allocation of $571 million, an increase of $232 million from budget. Increased funding has been provided for school maintenance and renewal, cost escalation of approved projects, modular classrooms, and new schools and preservation projects.
- **Community Facilities and Centennial Projects** – Total allocation of $148 million, $27 million higher than budgeted, reflecting the carry-over of unfinished 2005-06 projects in Community Development and Infrastructure and Transportation.
- **Water and Wastewater Management** – Total allocation of $105 million, a $15 million increase from budget. A further $100 million has been committed in 2007-08 for regional water systems.
- **Government Facilities, Housing and Equipment** – Total allocation of $494 million, an increase of $149 million from budget. Increased funding has been provided for acquiring the Glenbow Ranch property for a new provincial park, a province-wide policing information technology system, replacing the Edmonton Remand Centre, replacing two government airplanes and cost escalation of approved projects.
- **Capital for Emergent Projects** – Total allocation of $172 million, unchanged from budget.

CAPITAL PLAN SUMMARY

(millions of dollars)

		2006-07	
	Budget	1st Quarter Forecast	Change from Budget
Municipal infrastructure support	1,014	**1,078**	64
Provincial highway network	1,074	**1,099**	25
Health facilities and equipment	748	**898**	150
Schools	339	**571**	232
Post-secondary facilities	278	**327**	49
Community facilities and centennial projects	121	**148**	27
Water and wastewater management	90	**105**	15
Government facilities, housing and equipment	345	**494**	149
Capital for emergent projects	172	**172**	-
Total Capital Plan	4,181	**4,892**	711
To be funded by			
Current-year revenue	1,324	**1,332**	8
Capital Account	2,709	**3,412**	703
Alternative financing including P3s	148	**148**	-
Total Capital Plan	4,181	**4,892**	711

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets are forecast at $38.5 billion at March 31, 2007, including capital assets of $12.7 billion.
- **Capital Account** – Capital Account assets are forecast at $5.3 billion, an increase of $1.1 billion from March 31, 2006. These assets are available to help pay for the cost of existing capital commitments in future years.
- **Accumulated Debt/Debt Retirement Account** – Sufficient funds are available in the Debt Retirement Account to repay the remaining accumulated debt as it matures.
- **Heritage Fund** – The book value of the Heritage Fund (value of external assets) is forecast at $15 billion, an increase of $1.6 billion from March 31, 2006. The increase includes a $1 billion allocation to the Heritage Fund, inflation-proofing, increase for the advanced education endowment and repayment of ASHC debt.
- **Endowments and Other Funds** – Allocations have also been made to endowments and other funds, including the Cancer Prevention Legacy Fund, the Energy Innovation Fund, the Medical Research Endowment Fund, the Science and Engineering Research Endowment Fund and the Scholarship Fund.

BALANCE SHEET

AT MARCH 31

(millions of dollars)	2006	2007			
			1st Quarter	Change from Budget	Change from 2006 Actual
	Actual	Budget[a]	Forecast		
Financial Assets					
Heritage Fund external investments	*13,414*	14,737	**15,029**	292	1,615
Self-supporting lending organizations	*6,617*	7,007	**6,684**	(323)	67
Alberta Sustainability Fund	*4,083*	4,408	**5,128**	720	1,045
Endowment funds [b]	*2,327*	2,996	**3,264**	268	937
Capital Account	*4,243*	4,243	**5,293**	1,050	1,050
Debt Retirement Account	*2,197*	2,024	**2,032**	8	(165)
Other financial assets	*8,905*	9,852	**8,165**	(1,687)	(740)
Total Financial Assets	*41,786*	45,267	**45,595**	328	3,809
Liabilities					
Accumulated debt	*2,195*	2,022	**2,030**	8	(165)
Pension obligations	*5,435*	5,582	**5,652**	70	217
Self-supporting lending organizations [c]	*5,298*	5,562	**5,414**	(148)	116
Other liabilities	*5,975*	6,230	**6,696**	466	721
Total Liabilities	*18,903*	19,396	**19,792**	396	889
Net Financial Assets	*22,883*	25,871	**25,803**	(68)	2,920
Capital assets and inventories of supplies	*11,552*	12,513	**12,704**	191	1,152
Net Assets	*34,435*	38,384	**38,507**	123	4,072
Adjustment for pension obligations	*5,435*	5,582	**5,652**	70	217
Net Assets for Fiscal Policy Purposes [d]	*39,870*	43,966	**44,159**	193	4,289

a Budget numbers have been restated to reflect 2005-06 actual results.

b Includes the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

c Excludes $904 million borrowed from the General Revenue Fund by self-supporting lending organizations reported in other liabilities.

d Under the *Fiscal Responsibility Act*. Excludes pension obligations and change in equity of Crown-controlled SUCH sector organizations.

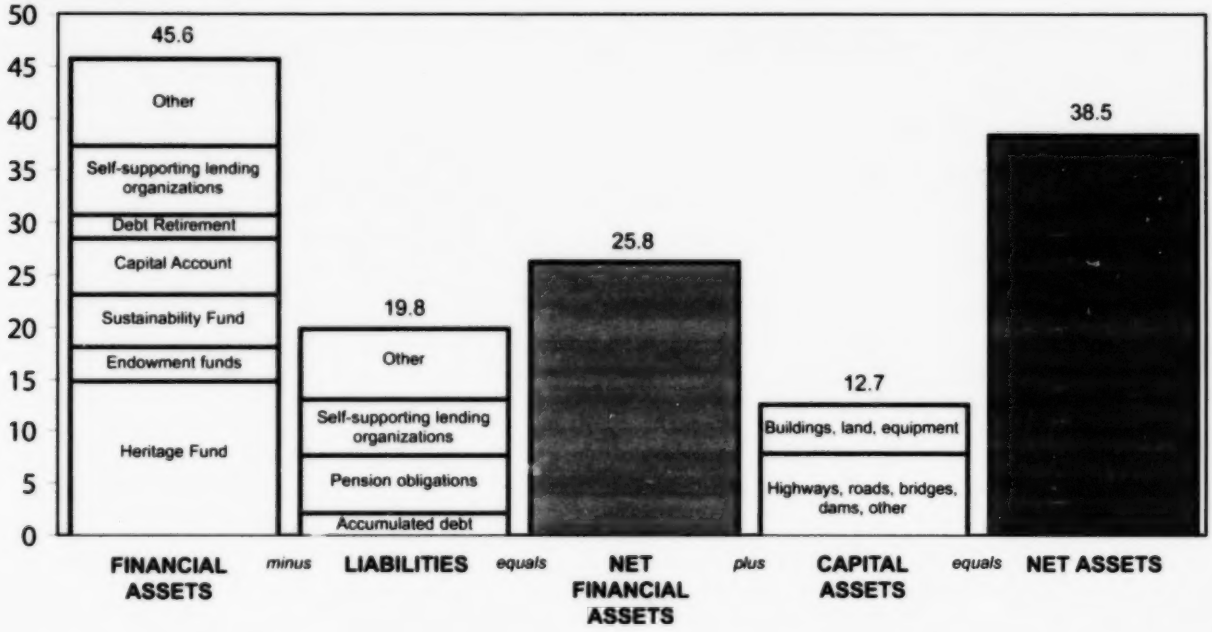
CAPITAL ACCOUNT

(millions of dollars)	2005-06	2006-07			
			1st Quarter	Change from Budget	Change from 2005-06 Actual
	Actual	Budget	Forecast		
Assets at Start of Year	*674*	4,243	**4,243**	-	3,569
Allocations from Sustainability Fund	*5,858*	2,709	**4,462**	1,753	(1,396)
Withdrawals					
Capital grants to local authorities	*(1,795)*	(1,896)	**(2,435)**	(539)	(640)
Government-owned capital investment	*(494)*	(813)	**(977)**	(164)	(483)
Assets at End of Year	*4,243*	4,243	**5,293**	1,050	1,050

ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2007

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2006-07		
	Budget	1st Quarter Forecast	Change from Budget
Requirements:			
General Revenue Fund term debt maturities	-	-	-
School construction loan repayments	65	65	-
Alberta Social Housing Corporation debt repayment [a]	108	100	(8)
Accumulated debt financing requirements	173	165	(8)
Agriculture Financial Services Corporation's term borrowing requirements	200	170	(30)
Gross financing requirements	373	335	(38)
Cash applied to accumulated debt repayment [b]	(173)	(165)	8
Net Term Debt Financing Requirements	200	170	(30)
Term debt financing completed to date	-	-	-

a $8 million of budgeted debt repayment took place in 2005-06.

b Accumulated debt maturities paid from the Debt Retirement Account.

2006-07 FISCAL YEAR ASSUMPTIONS

	Sensitivities ($ millions)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	1st Quarter Forecast
Oil Price (WTI US$/bbl)	-$1.00	-123	_	-123	50.00	63.50
Natural Gas Price (Cdn$/GJ)	-10c	-104	_	-104	7.50	6.50
Exchange Rate (US¢/Cdn$)	+1c	-172	_	-172	85.80	88.65
Interest Rates:	+1%	-200	+5	-205		
3-month Canada treasury bills					3.95	4.35
10-year Canada bonds					4.95	4.65

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2006-07 Capital Investment			2006-07 Capital Amortization		
	Budget	1st Quarter Forecast	Change from Budget	Budget	1st Quarter Forecast	Change from Budget
Legislative Assembly	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-
Advanced Education	4	4	-	5	5	-
Agriculture, Food and Rural Development	10	10	-	10	10	-
Children's Services	4	4	-	1	1	-
Community Development	26	37	11	12	12	-
Economic Development	-	-	-	-	-	-
Education	4	4	-	1	1	-
Energy	18	18	-	16	16	-
Environment	3	3	-	20	20	-
Executive Council	-	-	-	-	-	-
Finance	6	6	-	7	7	-
Gaming	-	-	-	-	-	-
Government Services	11	8	(3)	6	4	(2)
Health and Wellness	76	76	-	47	47	-
Human Resources and Employment	4	4	-	3	3	-
Infrastructure and Transportation	1,280	1,432	152	315	298	(17)
Innovation and Science	6	6	-	2	2	-
International and Intergovernmental Relations	-	-	-	-	-	-
Justice	22	22	-	3	3	-
Municipal Affairs	1	1	-	2	2	-
Restructuring and Government Efficiency	4	4	-	31	31	-
Seniors and Community Supports	1	1	-	25	25	-
Solicitor General and Public Security	-	10	10	1	1	-
Sustainable Resource Development	39	41	2	11	11	-
Total Capital Investment/Amortization	1,519	1,691	172	518	499	(19)
Funded from the Capital Account	813	977	164	-	-	-
Alternatively financed	148	148	-	-	-	-

a Capital Investment includes purchases of inventory. Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2006-07		
	Budget	1st Quarter Forecast	Change from Budget
Advanced Education	273	322	49
Agriculture, Food and Rural Development	29	35	6
Community Development	36	36	-
Education	339	571	232
Environment	1	8	7
Finance	4	4	-
Gaming	45	45	-
Health and Wellness	672	822	150
Infrastructure and Transportation [b]	1,188	1,270	82
Innovation and Science	1	1	-
Municipal Affairs [b]	5	18	13
Seniors and Community Supports	69	69	-
Total	2,662	3,201	539
Funded from the Capital Account	1,896	2,435	539

a Included in program expense. Includes provincial highway planning and rehabilitation.

b Budget numbers have been restated to reflect a $2.1 million transfer for 'capital for emergent projects' from Infrastructure and Transportation to Municipal Affairs ($2 million) and Children's Services ($125,000).

ACTUAL RESULTS

FOR THE FIRST THREE MONTHS OF 2006-07

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2006*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to these entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and regional health authorities that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2005-06 figures have been restated where necessary to conform to the 2006-07 presentation.

CONSOLIDATED FISCAL SUMMARY[a]

for the three months ended June 30, 2006

(millions of dollars)

	First Three Months		
	2006-07	2005-06	Change
Revenue			
Income taxes	2,327	2,024	303
Other taxes	840	744	96
Non-renewable resource revenue	3,604	2,645	959
Transfers from Government of Canada	836	969	(133)
Net income from commercial operations	605	539	66
Premiums, fees and licences	592	577	15
Investment income	430	538	(108)
Other	113	122	(9)
Total Revenue	9,347	8,158	1,189
Expense			
Program	6,304	6,116	188
Debt servicing costs	52	74	(22)
Total Expense	6,356	6,190	166
Net Revenue	2,991	1,968	1,023

a Includes the province's cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the change in equity in Crown-controlled SUCH sector organizations, and the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the three months ended June 30, 2006

(millions of dollars)

	First Three Months		
	2006-07	2005-06	Change
Program			
Legislative Assembly	21	14	7
Aboriginal Affairs and Northern Development	19	19	-
Advanced Education	408	295	113
Agriculture, Food and Rural Development	116	135	(19)
Children's Services	223	190	33
Community Development	85	85	-
Economic Development	29	21	8
Education	1,148	1,119	29
Energy	46	43	3
Environment	33	31	2
Executive Council	5	5	-
Finance	134	130	4
Gaming	36	25	11
Government Services	21	18	3
Health and Wellness	2,329	2,145	184
Human Resources and Employment	176	176	-
Infrastructure and Transportation	650	914	(264)
Innovation and Science	21	18	3
International and Intergovernmental Relations	3	2	1
Justice	82	75	7
Municipal Affairs	39	44	(5)
Restructuring and Government Efficiency	35	33	2
Seniors and Community Supports	416	391	25
Solicitor General and Public Security	94	92	2
Sustainable Resource Development	135	96	39
Total Program Expense	6,304	6,116	188
Debt Servicing Costs	52	74	(22)
Total Expense	6,356	6,190	166

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